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About This Research

This report is the result of a team effort by a number of Conference Board researchers. The contributions research evaluation was provided by Anne Klepper, Manager, Corporate Contributions Research, and Kathryn L. Troy, Senior Research Associate. The survey and data on company plans for urban aid were developed by Leonard Lund, Manager, Urban Research Department. The concept for this research was developed by the late Walter A. Hamilton, Vice President of Public Affairs Research. The report was written by E. Patrick McGuire, Executive Director, Business/Government Research Program, and Nathan Weber, Research Associate.

The Background

On August 13, 1981, the Reagan Administration delivered on one of its central campaign promises: It effected the largest federal budget cut in history. The Omnibus Reconciliation Act reduced federal spending by $35.2 billion in fiscal 1982, cut another $44.0 billion in 1983, and $51.4 in 1984. The budget had passed by a voice vote in the House, and by 80 to 14 in the Senate. On the same day, in a move to stimulate the economy—and also guarantee that future budget architects would be denied remodeling or expansion funds—the Administration initialed the largest tax cut bill in history, reducing tax revenues during 1982, 1983, and 1984 by an estimated $149.9 billion.[1]

A majority of the cuts achieved by the Administration for these three years were directed at the "social program" area of federal funding. Moneys for economic development were slashed by $2.4 billion, food stamps by $10.8 billion, job training (CETA) by $15.9 billion, and so forth. Some programs could be—and were—eliminated entirely, but others, even the programs' critics admitted, deserved to be continued. However, with federal budget support now curtailed or withdrawn, it was alleged that there would be substantial shortfalls, or "gaps," between what moneys had been previously planned for these programs and the federal funds now authorized for them. Thus began the search for resources for what political strategists soon dubbed "filling the gap."

Gap Fillers: A Limited Cast of Actors

Almost from the beginning, it was clear that state and local governments would have to bear a major share of the gap-filling responsibility created by federal budget cuts. But state and local governments had their own budget problems. Stiff resistance to tax rises, plus the continuing impact of inflation, provided little in the way of discretionary funds at state or local levels to be used to offset federal reductions. And few state legislators are enthused about going to their constituencies with the proposition that they are raising taxes in order to make up for shortfalls in federal funding. Such tax increments, if enacted, would cancel out the promised stimulative benefits that the Administration's supply-side economists foresee as a result of federal tax reductions. Thus, the stage was set for a new set of actors in the funding drama—individual citizens, foundations and corporations.

Prior research has estimated the amounts these sources provide to the total of private-sector philanthropy in the United States. In 1980, corporate giving was put at $2.7 billion, while foundations provided an additional $2.4 billion, and $39.9 billion came from individuals. But nearly half of all individual donations are to churches for religious purposes.

From the foundations' standpoint, there appeared little, if any, hope that significant increments in contributions would be available for gap-filling purposes. Foundation giving has increased at an average rate of only 6.4 percent during the past several years.[2] Some studies have shown that total foundation assets, computed on a constant-dollar basis, have actually declined during the past half decade from $25.1 billion to $17.7 billion.[3]

[1] All budget and tax figures are from Michael Levy, Steven R. Malin, and Delos Smith, *Economic Policy Issues 1981, #3*. The Conference Board. They are based on House Budget Committee, *Summary of Conference Agreement, Omnibus Budget Reconciliation Act of 1981*, July 30, 1981.

[2] Estimated from data in *Giving, USA 1981 Annual Report*, American Association of Fund Raising Counsel, Inc., New York, p.27.

[3] *The Foundation Directory, 8th Edition*, The Foundation Center, New York, 1981, Table 8.

The amount of increase in individual contributions could, of course, be heavily affected by changes in personal income—particularly among upper-income groups. The early results of a number of United Way campaigns do show a slight upswing in individual contributions. The United Way, with more than 2,100 campaigns operating throughout the United States, raised $1.5 billion in 1980. But as the economy slides into a "planned-for" recession, and as consumers' real income continues to shrink, there seems to be little realistic hope that individual contributions will mushroom to such proportions that they can significantly help with the gap-filling task.

This leaves one final source—the business community. And it is against the backdrop described above that the concept of "Reagan Voluntarism" (now titled "Private Sector Initiatives") has begun to evolve. It seemed evident that Administration strategists planned for and anticipated that the business community would significantly increase its various philanthropic activities, and that these increments would help close the gap created by federal cuts. During the Summer and Fall of 1981, two separate Conference Board research groups began to test this hypothesis through direct-mail surveys, interviews, seminars, and workshops. The results of these investigations are described below.

Contributions Budget: Dimensions and Directions

Based on Internal Revenue Service data, The Conference Board estimates that no more than 300 American companies contribute over $1 million per year to a variety of nonprofit organizations. Thus, in assessing how corporate contributors were likely to respond to the Administration's call for increased philanthropy, Board researchers focused on those companies that provide the overwhelming majority of all corporate philanthropy.

A total of 427 companies, two-thirds from the *Fortune* 1,300, responded to Conference Board requests for details on their contributions budget.[4] Sixty percent of those responding said that they were planning to increase their contributions budget for 1982. (See Table 1.) But only 6 percent of all those questioned say that they are increasing their budgets in response to government budget cuts. Nine out of ten of those increasing their budgets say that such increases were planned for prior to any federal budget cuts and are part of the normal practice of increasing budgets each year to reflect inflation and gains in corporate profits.

Over the past five years, increases within the major categories of giving (e.g., education, health and welfare, arts and culture) have ranged between 15 and 25 percent on the average. There is no indication in the current data that any major change in this range is planned. However, it is clear from Conference Board data that several major firms are actually planning to hold the line or even reduce contributions budgets during 1982.

Table 1: Plans for Corporate Contributions in 1982

Companies	Increase	Percent Decrease	Same
Total	60%	6%	34%
Fortune 1300 Firms	67	6	27
Smaller Firms	50	5	45

Besides reflecting downturns in corporate profits and a general belt-tightening among a variety of corporate expenditures, these reductions may flow directly from the Administration's tax cuts. Contributions are, after all, a tax deductible expense. The lower the taxes, the less the need for contributions. As one respondent noted: "The real irony, of course, is that the federal tax cut is a disincentive to giving."

Reallocating Available Budgets

One additional option to help fill various gaps would be to reallocate available corporate philanthropy, putting greater amounts of money into programs such as job training and economic redevelopment, for example, at the expense of philanthropic support for the arts. But the survey data do not support the thesis that companies are planning—at this point—to make any significant reallocation in those funds they do make available for contributions purposes. Six out of ten firms say no readjustments of priorities are yet planned. Among the minority that do expect to change priorities, social welfare services and education get their primary attention, with arts and culture also due for some increases. Health and hospital programs, by contrast, will be getting less. There also seems to be a little evidence that corporate contributions managers will be adding new categories of assistance. Nine out of ten say that they are not planning for any new budget priorities. And nearly 95 percent of those surveyed report no present intentions to hire additional professional staffs for their contributions departments. This is true of the *Fortune* 1,300 almost to the same degree as for smaller companies (91 and 98 percent, respectively.)

Combining Contributions with Other Company Programs

In some firms, the contributions budget can be oriented so that it has a synergistic impact on other company programs, such as direct loans for community redevelopment, low-interest mortgages for inner-city

[4]The 1,000 largest manufacturing companies plus the 300 largest service, financial and transport firms.

residents, company-sponsored job-training programs, and so forth. More than half of the contributions managers surveyed say they do not plan to use their budgets to reinforce or support such programs as Table 2 shows. (Of course, there are no such programs in a number of companies and, thus, such an option is not available.) In the minority of firms where contributions budgets will be used to help augment other company programs, the vast majority say that they will focus on community-development programs and only a small number opt for on-the-job training or housing assistance.

The Disappearing Volunteers

Besides the direct contribution of funds, companies can also assist charitable and community organizations by lending personnel to help in the management and operation of these institutions. Board research has already reported on a number of companies that have chosen to follow this route.[1] It should be noted, however, that in periods of reduced profits, companies are less inclined to lend members of their "first teams" to civic or nonprofit organizations.

Significant increases in the number of people lent to such institutions would have some impact on closing the funding gap, since it would reduce the need for paid staff and would bring badly needed management personnel to the institutions. But, again, a majority of contributions managers say they do not expect any such action on the part of their companies. Contacts with a number of volunteer-dependent organizations, such as United Way, the American Red Cross, and others, point to the fact that these institutions are experiencing ever more difficulty in getting volunteers. "The pool of volunteer workers was made up primarily of housewives," one volunteer organization official states. "Now, a lot of these women are holding down full-time jobs. They're just not available to help staff many of the social programs that are squeezed by reduced federal funding." At the same time, as researcher Daniel Yankelovich has pointed out, the 1970's was the birth of the Self-Generation—a decade in which many Americans began to lose some of their interest in helping others and focused more on their own physical and psychological needs.

The four out of ten companies that do plan to increase the emphasis on personal services say they will concentrate primarily on encouraging employees to perform community service work on their own time. Such efforts will produce some increase in the donation of personal services, executives say, but not nearly as much as could be accomplished if the companies had decided to pay the employees for the investment of such personal time.

[1]See, for example, Nathan Weber and Leonard Lund, *Corporations in the Community*. The Conference Board, Research Bulletin No. 103, 1981.

Table 2: Plans to Integrate Contributions With Other Corporate Functions

Companies	*Yes*	*No*
Total	44%	56%
Fortune 1300	50	50
Smaller Companies	34	66

Aiding the Urban Communities

Most observers agree that it is the nation's cities that will be hardest hit by federal budget cuts. Saddled with decaying infrastructures, above-average unemployment rates, and chronically high welfare caseloads, cities are in particular need of federal funding resources. As a result, Conference Board researchers sought to determine whether or not companies located in major urban centers had plans to increase aid to these communities, to develop new programs for their cities, or to reallocate the priorities of such programs.

Conference Board researchers selected 425 companies, headquartered in major U.S. cities, and 137 of these corporations responded to a separate survey on changes in their firms' urban agendas.

The pattern of response, obtained primarily from the senior public affairs executives in these companies, was generally consistent with the responses obtained from contributions executives. Nearly six out of ten firms reported that there would be no significant change in their companies' urban-assistance programs. Only a fifth of the firms indicated any plans to increase financial aid to the various urban programs in those cities where they have office or manufacturing facilities.

A Time for Reassessment

Despite the fact that very few companies plan to increase their aid to cities, there is evidence that many companies have begun to "rethink" the ways in which they assist cities. Firms report that they are reassessing the kinds of assistance they provide and looking for ways to make more use of joint ventures between business and communities. Some feel that there are "too many urban programs," and that a consolidation of these programs would produce efficiencies. They are trying, through their assistance leverage, to persuade political and social leaders to effect such combinations.

It is also evident that many of these respondents, who are primarily *Fortune* 500-size firms, believe they are bearing an unfair portion of the burden. "When cities need help," one respondent points out, "they always come to the major companies. But there are literally hundreds of other firms of medium and small size that

also have a responsibility to help. And, in aggregate, the amount of aid these companies could provide actually exceeds what major firms are capable of doing."

Another respondent repeats the refrain, heard throughout the survey of both contributions and public affairs executives, that: "Instead of asking more from companies that are already providing aid, politicians would do better to expand the number of firms participating in aid programs."[6]

Few Changes in Personnel

Four-fifths of the firms surveyed in the urban agenda study say that they have no plans either to change the organizational structure devoted to providing urban assistance, or to expand their staffs. (Enlargements in staff are often the best bureaucratic barometer of company intentions to increase the size and scope of urban-assistance programs.) The overwhelming majority believe that they have sufficient staff resources to accomplish their present urban-aid goals, but some plan to change the kinds of assignments for these personnel. Such changes will involve greater assistance in civic management—particularly as financial advisers—and more help in job training and hiring.

Overall, most urban-headquartered respondents say they do not plan to alter their current mix of urban priorities significantly. Nor do they plan to enter the field of "people support" programs, such as welfare assistance and public health.

What Concerns Urban-Based Companies Most

There are five principal areas of interest which head the list of concerns with urban issues. (See Table 3.) Most prominent is the desire for more efficient local government. Respondents feel that local public administrators could do a better job with the budget funds they already have available to them. Complaints about waste in government are as prevalent at the local level as they have been at the federal level. Next, companies are concerned about the quality of public school systems. They have an opportunity, in their hiring and selection process, to observe the quality of "product" generated by local school systems and complain that too many do not meet minimal skills standards.

[6]Corporations will be allowed to take deductions of up to 10 percent of their taxable income as charitable contributions on their federal income tax returns. Analysis of Internal Revenue Service data from the 1977 year, as yet unpublished, indicates that 65 percent of the 1.4 million corporations that had a positive income in that year did not make charitable contributions. However these 918,881 companies had only 15 percent of the assets and income reported in that year. The other 35 percent of the companies did make contributions. They accounted for 85 percent of the assets and income reported.

Table 3: Ranking of Urban Issues of Concern to Public Affairs Executives

Issue	*Rank Order*[1]
Efficient Local Government	1
Education	2
Economic and Downtown Development	3
Unemployment	4
Taxes	5
Minority and Racial Issues	6
Neighborhood Development	7
Public Transportation	8
Energy	9
Crime	10
Cultural Amenities	11
Housing	12
Health, Hospitals	13
Public Welfare	14
Environmental Protection	15
Vocational Training	16
Water Supply	17
Streets, Sewers	18
Other	19
Sanitation	20

[1]By frequency of mention

Firms are generally concerned about local economic development, particularly in downtown areas, and are willing to support such development. Naturally, they are worried about the above-average unemployment levels in urban sectors and the impact that such unemployment can have on welfare costs and crime. Taxes, therefore, also get a share of attention—with many of the companies believing that tax loads could be lightened, perhaps through better municipal management.

The areas of least concern include many elements of the cities' infrastructure, particularly sanitation, water supply, and street maintenance. While nearly all respondents recognize the importance of these elements to the cities' functioning, they do not rate them as high as the issues in which the corporations should be directly involved.

Summary

With nearly 600 executives having been contacted, nearly all senior officials in key corporate posts, certain general observations become evident. First, there is yet no groundswell of enthusiasm or intent for the gap-filling role set out by Administration strategists. The business leaders contacted are as genuinely concerned about the impacts of budget cuts as are political leaders. But there is a widespread sense that political strategists are not

aware of the extent to which the business community is already supporting various philanthropic endeavors; and many believe that administration strategists do not have an appreciation of the limited resources actually available to meet various funding shortfalls.

There is also confusion in some corporate sectors over the premise that various social programs should be continued with corporate rather than government support. One public affairs vice president notes: "Our company supported the President because we believed in the elimination of a number of these programs. Naturally, we're not too enthused about continuing the programs and shifting the burden to the corporate sector."

There is little doubt that many community and nonprofit organizations have received the Administration's message on corporate voluntarism. Over three-quarters of the executives surveyed say that the number of requests for aid has jumped substantially. Some firms report a 300 percent increase in the number of such requests.

One of the difficulties that some executives perceive has to do with another kind of gap—the one that exists between community perceptions of what companies are able to (and should) do in the way of assistance and the businesses' perceptions of their own financial capabilities. Executives expressing these concerns say that a combination of events and government officials may have inadvertently "set up" the business community to be a target for criticism when certain programs have to be cancelled because of lack of funds. In other words, they resent the transfer of this burden and responsibility to the private sector. "We didn't start these programs," one executive points out, "and we shouldn't be responsible for their continuation if federal money is not available."

The Conference Board has been tracking corporate contributions since 1943. Based on such research, the amount of aid provided by companies seems to be closely correlated with corporate profits. Generally, the amount of aid to civic and nonprofit organizations closely parallels both individual companies' economic fortunes and executive attitudes.

A number of the firms interviewed report that, as far as their contributions activities are concerned, they are in a wait-and-see stance. "At this point," one oil company executive says, "we don't know whether all the dire predictions about the effects of social program cutbacks are going to come true. There are an awful lot of scare stories around, but it's still too early to tell what is going to happen. Meanwhile, we're sitting still with our present program and its priorities."

Other companies point out that their contributions budgets were already well-established before the budget cuts took place, and the increments—or lack of them—reflect last Spring's views of what the firms' contributions would be. Again, these companies do not plan to deviate from their aid and contributions program until there is clear evidence that further assistance is needed.